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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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KRISTIN K. MAYES, Chairman
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS AGUA FRIA
WATER DISTRICT, HAVASU WATER
DISTRICT, MOHAVE WATER DISTRICT,
PARADISE VALLEY WATER DISTRICT,
SUN CITY WEST WATER DISTRICT AND
TUBAC WATER DISTRICT.

DOCKET NO. W-01303A-08-0227

Arizona Corporation Commission
DOCKETED

MAR 20 2009

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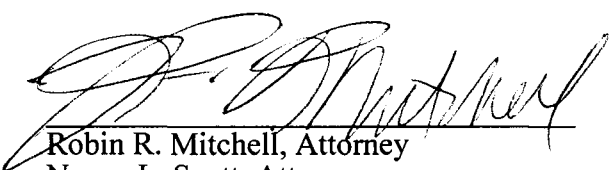
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PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS MOHAVE
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-08-0227

**NOTICE OF FILING
WITNESS SUMMARY**

Staff of the Arizona Corporation Commission ("Staff") hereby provides the witness summary
of Staff witness David C. Parcell.

RESPECTFULLY SUBMITTED this 20th day of March, 2009.


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1 Original and thirteen (13) copies
2 of the foregoing were filed this
20th day of March, 2009 with:

3 Docket Control
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6 Copy of the foregoing mailed this
20th day of March, 2009 to:

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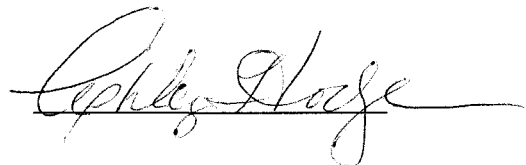
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SUMMARY OF DIRECT TESTIMONY OF DAVID C. PARCELL

I have been retained by the Utilities Division Staff to evaluate the cost of capital aspects of the current filing of Arizona-American Water Company ("AAWC" or "Company"). I have performed independent studies and am making recommendations of the current cost of capital for AAWC. In addition, since AAWC is a subsidiary of American Water Works Company, Inc. ("AWW"), I have also evaluated this entity in my analyses.

My overall cost of capital recommendations for AAWC are:

	<u>Percent</u>	<u>Cost</u>	<u>Return</u>
Short-Term Debt	10.98%	5.367%	0.59%
Long-Term Debt	47.70%	5.463%	2.59%
Common Equity	41.62%	9.5-10.5%	3.95-4.37%
Total	100.00%		7.13-7.55%

AAWC's application requests a return on common equity of 11.75 percent and overall rate of return of 8.40 percent. I propose a return on common equity of 10.0 percent and an overall rate of return of 7.34 percent.

The following is my summary of my cost analyses and related conclusions for AAWC:

This proceeding is concerned with AAWC's regulated water utility operations in Arizona. My analyses are concerned with the Company's total cost of capital. The first step in performing an analysis of the Company's cost of capital is the development of the appropriate capital structure. AAWC's proposed capital structure is comprised of 46.75 percent common equity and 53.25 percent long-term debt. This capital structure is the projected December 1, 2008, capital structure of the Company. I use a capital structure in my cost of capital analyses that contains short-term debt.

The second step in a cost of capital calculation is a determination of the embedded cost rates of debt. AAWC's application uses a long-term debt cost rate of 5.463 percent, which reflects the Company's projected cost at December 31, 2008. I have used the same rate for this item as is proposed by the Company. For the cost of short-term debt, I use the rate cited in the Company's filing.

The third step in the cost of capital calculation is the estimation of the cost of common equity. I have employed three recognized methodologies to estimate the cost of equity for AAWC. Each of these methodologies is applied to three groups of proxy water utilities. These three methodologies and my findings are:

<u>Methodology</u>	<u>Range</u>
Discounted Cash Flow	9.5-10.5%
Capital Asset Pricing Model	10.2-10.5%
Comparable Earnings	9.5-10.5%

Based upon these findings, I conclude that the cost of common equity for AAWC is within a range of 9.5 percent to 10.5 percent. I recommend the mid-point of my cost of equity range (10.0 %).

Combining these three steps into a weighted cost of capital results in an overall rate of return range of 7.13 percent to 7.55 percent. My recommended 10.0 percent cost of equity results in an overall cost of capital of 7.34 percent.

SUMMARY OF SURREBUTTAL TESTIMONY OF DAVID C. PARCELL

My Surrebuttal Testimony first responds to the Rebuttal Testimony of Dr. Villadsen. Next, I update my Exhibits contained in my Direct Testimony and update my DCF, CAPM, and CE analyses.

My response to Dr. Villadsen's Rebuttal Testimony generally follows the format she utilized and is organized into the following topics:

- General comments
- Financial risk issues
- Discounted Cash Flow Issues
- Capital Asset Pricing Model Issues
- Comparable Earnings Method Issues